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SUBJECT: UKRAINE: PLANNING FOR EURO 2012 SOCCER CHAMPIONSHIP
LAGGING

REF: WARSAW 01332

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¶1. (SBU) Summary: The 2012 European Soccer Championship (Euro 2012), to be co-hosted with Poland, offers Ukraine opportunities to attract USD billions in foreign investment, improve the business climate, and make needed infrastructure upgrades. The event, which attracts an immense following in Europe, also offers Ukraine the opportunity to showcase itself as a modern European country. So far, however, the GOU has taken few steps to surmount the myriad challenges it faces in preparation for the championships. The European soccer body organizing the event has even threatened to relocate the championship game from Kyiv because of a dispute over the construction of a shopping mall near the city's main stadium. The Executive Director for the European Business Association (EBA) at a recent EBA meeting noted that the government may be able to attract investment more effectively and move Euro 2012 plans forward once the political dust settles from the September Rada (parliamentary) elections. A new government, and the President, will need to make Euro 2012 a top priority. Ukraine is not in danger of losing the event, but the risk could emerge if the current lack of focus drags on far into 2008. Such an embarrassment would be bad for Ukraine's political image in Europe and represent a wasted chance for needed investment and economic reform. End Summary.

Ambitious Investment Goals

¶2. (U) Ukraine will co-host the 2012 European soccer championships with Poland (reftel). Games are planned in Kyiv, Dnipropetrovsk, Donetsk and Lviv, with Odesa and Kharkiv serving as reserve locations. Thousands of soccer fans from throughout Europe are expected for the three week spectacle. The championship is an immensely popular sporting event in Europe, ranking only behind the Olympics and the soccer World Cup, and will give Ukraine the most media exposure it has experienced among ordinary Europeans since independence.

¶3. (U) On November 29, EconOff attended a Euro 2012 Task Force Meeting sponsored by the European Business Association (EBA). Anna Derevyanko, EBA Executive Director, gave an overview of Ukraine's latest preparations for the event. The GOU has acknowledged that Ukraine will need investment topping UAH 100 billion (USD 20

billion) for improving and expanding transportation infrastructure, renovating and building new stadiums, and building more than 80 new hotels. The GOU hopes that about 90 percent of the investment will come from private sources, both domestic and foreign.

Planning Still Lacks Focus

¶4. (SBU) To date, however, the GOU's efforts to boost private investment for 2012 have been minimal. Derevyanko said that few preparations had been made, despite looming deadlines. The only concrete step she mentioned was approval of legislation to take effect on January 1 exempting imports earmarked for Euro 2012 projects from customs duties. She also highlighted coordination problems, noting two coordinating committees had been formed, one under the Presidential Secretariat, the other under the Prime Minister. The extent to which both committees cooperate is unknown.

In addition to the two committees, a national agency responsible for coordinating Euro 2012 issues under the Ministry of Youth, Family, and Sports will begin work on January 1, assuming the Rada passes the 2008 budget on time before yearend. The lack of a single central authority already has created problems. For example, preparations have been moving forward faster in Odesa than in Donetsk, Dnepropetrovsk, and Kyiv even though Odesa is only a reserve venue.

Investment Forums Held, Interest Only Lukewarm

¶5. (U) Euro 2012 investment forums have been held in Lviv, Kyiv and Odesa. So far, a total of only eleven companies, however, have registered for Euro 2012 tenders. Interested companies, according to Derevyanko, are required to submit registration applications to the Ministry of Economy. There was agreement among the EBA meeting's participants that one of the major stumbles in Ukraine's bid was that the GOU had failed to make its tender procedures public. A Citibank representative added that aspects of the tender

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process for lenders remain unclear. Another common complaint is that tenders are required even for small projects, worth less than a few thousand dollars. According to a participant at the EBA meeting, however, winning a tender is easier than obtaining funding from the GOU because Ukrainian civil servants make direct government funding procedures very difficult.

Stadium Construction Challenges Remain

¶6. (SBU) Alexander Litkovskyy, Siemens Program Manager, stated at the EBA meeting that a minimum of two years is needed to build all of the necessary stadiums. The GOU will have problems completing the stadiums by 2010, a Euro 2012 deadline, if construction does not begin by March 2008, according to Litkovskyy. (Note: President Yushchenko in late October made similar statements, and mentioned that prospects for hosting Euro 2012 would diminish if sports infrastructure is not ready in two years. End Note.)

¶7. (SBU) Preparations for Kyiv's Olympic Stadium, where group games, a quarter final game and the championship game are planned, have lagged due to disputes over construction of a nearby shopping and entertainment complex, which limits the stadium's seating capacity and reduces its safety by reducing the number of exits in an emergency. The Union of European Football Associations (UEFA), the organizer of Euro 2012, considers the shopping complex a safety hazard and threatened to remove the stadium from the list of venues scheduled to host games. Yushchenko's August 31 presidential decree banned further construction near the Olympic Stadium, but razing the partially finished complex is likely to be an uphill battle for the GOU, the City of Kyiv, and UEFA. The Yudzhyn (Eugene) construction company is financing the construction of the complex, 50 percent of which is controlled by "Smart Holding Ltd," itself owned by well-connected Russian businessman Vadim Novinsky. On December 6 the Kyiv City Council voted to move forward with the construction of the shopping complex and suggested building a new stadium on the outskirts of the city.

¶8. (SBU) On an optimistic note, Austrian Commercial Attaché Clemens Machal noted at the EBA meeting that after the Euro 2008 Championships end in Austria on June 29, UEFA will establish an office in Kyiv. Machal predicted UEFA would "rule with an iron fist" to move things forward.

Hotels, Transportation Upgrades Needed

¶9. (SBU) One of the participants at the EBA meeting mentioned that Ukraine's hospitality industry and airports need overhauling to prepare for Euro 2012. Private investment particularly will be needed to address the lack of hotel rooms in Ukraine. The GOU expects 82 three star hotels to be built, but so far no plans have advanced largely due to private investors' concerns that these projects are not economically viable. In addition, airports and transportation capacity between airports and city centers need to be upgraded to accommodate the large number of soccer fans who will visit. Managing the flow of thousands of fans across the border with Poland will pose an additional administrative challenge, since Poland is due to join the EU's Schengen visa regime on January 1, 2008, and this could complicate movement of some fans (particularly Ukrainians) from Ukraine to Poland.

Comment

¶10. (SBU) Euro 2012 will give Ukraine a chance to showcase itself as a modern European country to an attentive European audience, as thousands will descend on the country and millions more throughout Europe will hear about Ukraine regularly via the media in the months before and during the championship. The event could also attract the largest surge in foreign investment in Ukraine's history. We would also expect that the games will give the GOU clout to push through many of the economic reforms that are needed to attract the high levels of FDI. For example, the World Bank has pointed to Euro 2012 as an impetus for reforming Ukraine's government procurement process immediately. To date, however, the GOU has said all the right things about Euro 2012 but taken very little concrete action, and any action it has taken has been poorly managed and coordinated.

It is not too late for the GOU to change course, but it must do so soon after the new government takes office. Ukraine is not now in danger of losing the championship, but the risk could emerge if the current slow pace of preparations continues far into 2008. Such an

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embarrassment would be bad for Ukraine's political image in Europe and represent a wasted chance for needed investment and economic reform. End comment.

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